MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BEC1844 - MACROECONOMICS

(All sections / Groups)

27 FEBRUARY 2017
9 a.m. – 11 a.m.
(2 Hours)

INSTRUCTION TO STUDENTS

1. This Question paper consists of 9 pages excluding cover page with **FORTY (40)** Multiple Choice Questions from Section A and **THREE (3)** Short Structured Questions from Section B.

2. Candidates **MUST** attempt **ALL** questions from both **SECTION A** and **SECTION B**. **Section A** carries 40 marks and **Section B** carries 60 marks and the distribution of the marks for each question is as given.

3. Please shade and write all your answers in the OMR for Multiple Choice Questions from **Section A** and Answer Booklet for **Section B** respectively.

SECTION A (40 MARKS)

There are FORTY (40) questions in this section. Answer ALL questions on the OMR sheet.

1. Which of the following statistics is usually regarded as the best single measurement of a society's economic well-being?
   a. the unemployment rate
   b. the inflation rate
   c. gross domestic product
   d. the trade deficit

2. In a simple circular-flow diagram total income and total expenditure are
   a. never equal because total income always exceeds total expenditure.
   b. seldom equal because of the ongoing changes in an economy's unemployment rate.
   c. equal only when one dollar is spent on goods for every dollar that is spent on services.
   d. always equal because every transaction has a buyer and a seller.

3. GDP is defined as the market value of all final goods and services produced
   a. by the citizens of a country, regardless of where they live, in a given period of time; this definition focuses on GDP as a measure of total income.
   b. by the citizens of a country, regardless of where they live, in a given period of time; this definition focuses on GDP as a measure of total expenditure.
   c. within a country in a given period of time; this definition focuses on GDP as a measure of total income.
   d. within a country in a given period of time; this definition focuses on GDP as a measure of total expenditure.

4. If nominal GDP is \$10 trillion and real GDP is \$8 trillion, the GDP deflator is
   a. 80, and this indicates that the price level has decreased by 20 percent since the base year.
   b. 80, and this indicates that the price level has increased by 80 percent since the base year.
   c. 125, and this indicates that the price level has increased by 25 percent since the base year.
   d. 125, and this indicates that the price level has increased by 125 percent since the base year.

5. A *recession* is a period during which
   a. nominal GDP declines for about two consecutive quarters.
   b. nominal GDP declines for about four consecutive quarters.
   c. real GDP declines for about two consecutive quarters.
   d. the GDP deflator declines for about four consecutive quarters.

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6. Let 2004 be the base year; then
   a. Inflation rate in 2005 $= \frac{\text{CPI in 2005} - \text{CPI in 2004}}{\text{CPI in 2004}} \times 100.$
   b. Inflation rate in 2005 $= \frac{\text{CPI in 2005} - \text{CPI in 2004}}{\text{CPI in 2005}} \times 100.$
   c. Inflation rate in 2005 $= \frac{\text{CPI in 2004} - \text{CPI in 2005}}{\text{CPI in 2004}} \times 100.$
   d. Inflation rate in 2005 $= \frac{\text{CPI in 2004} - \text{CPI in 2005}}{\text{CPI in 2005}} \times 100.$

7. The key determinant of a person's standard of living in a country is
   a. the amount of goods and services produced from each hour of a worker's time.
   b. the total amount of goods and services produced within the country.
   c. the total amount of its physical capital.
   d. its growth rate of real GDP.

8. The price level rises from 120 to 150. What was the inflation rate?
   a. 30%
   b. 25%
   c. 20%
   d. None of the above is correct.

9. As inflation rises, people will tend to
   a. go to the bank more often. This is known as menu costs.
   b. go to the bank more often. This is known as shoeleather costs.
   c. go to the bank less often. This is known as the inflation fallacy.
   d. go to the bank less often. This is known as redistribution costs.

10. Along a particular saving schedule, each change in disposable income of RM15 billion generates an additional RM3 billion in saving. Therefore:
    a. the MPS is 0.3
    b. the MPS is 0.2
    c. the APS is 0.8
    d. the slope of the consumption schedule is 0.7

11. In the Aggregate Expenditures model with no government or foreign sectors, savings is equal to investment when output is
    a. Equal to the equilibrium level of output.
    b. Greater than the equilibrium level of output.
    c. Greater than the equilibrium level of output.
    d. Constant.

Continued...

12. When planned injections of investment, government spending, and exports equal leakages of saving, taxes, and imports?
    a. Aggregate expenditures will equal GDP
    b. Consumption plus injections will be greater than aggregate expenditures
    c. Net exports will be zero
    d. Output will be below its equilibrium level

13. Fiscal policy refers to the idea that aggregate demand is changed by changes in
    a. the money supply.
    b. government spending and taxes.
    c. trade policy.
    d. All of the above are correct.

14. If the *MPC* is 0.80 and there are no crowding-out or accelerator effects, then an initial increase in aggregate demand of $100 billion will eventually shift the aggregate demand curve to the right by
    a. $80 billion.
    b. $125 billion.
    c. $500 billion.
    d. $800 billion.

15. The government-purchases multiplier is defined as
    a. *MPC*.
    b. 1 - *MPC*.
    c. 1/*MPC*.
    d. 1/(1 - *MPC*).

16. Which of the following correctly explains the crowding-out effect?
    a. An increase in government expenditures decreases the interest rate and so increases investment spending.
    b. An increase in government expenditures increases the interest rate and so reduces investment spending.
    c. A decrease in government expenditures increases the interest rate and so increases investment spending.
    d. A decrease in government expenditures decreases the interest rate and so reduces investment spending.

17. A decrease in the money supply creates an excess
    a. supply of money that is eliminated by rising prices.
    b. supply of money that is eliminated by falling prices.
    c. demand for money that is eliminated by rising prices.
    d. demand for money that is eliminated by falling prices.

Continued...

18. Liquidity refers to
    a. the ease with which an asset is converted to the medium of exchange.
    b. a measurement of the intrinsic value of commodity money.
    c. the suitability of an asset to serve as a store of value.
    d. how many time a dollar circulates in a given year.

19. Which of the following is not included in M1?
    a. currency
    b. current account
    c. savings deposits
    d. travelers' checks

20. When a bank loans out $1,000, the money supply
    a. does not change.
    b. decreases.
    c. increases.
    d. may do any of the above.

21. Bank Negara Malaysia does all except which of the following?
    a. control the supply of money
    b. control the value of money
    c. make loans to individuals
    d. regulate the banking system

22. To increase the money supply, the central bank could
    a. sell government bonds.
    b. decrease the discount rate.
    c. increase the reserve requirement.
    d. None of the above is correct.

23. People will want to hold less money if the price level
    a. or the interest rate increases.
    b. or the interest rate decreases.
    c. increases or the interest rate decreases.
    d. decreases or the interest rate increases.

24. The aggregate demand curve
    a. has a slope that is explained in the same way as the slope of the demand curve for a particular product.
    b. is vertical in the long run.
    c. shows an inverse relation between the price level and the quantity of all goods and services demanded.
    d. All of the above are correct.

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25. Most economists use the aggregate demand and aggregate supply model primarily to analyze
    a. short-run fluctuations in the economy.
    b. the effects of macroeconomic policy on the prices of individual goods.
    c. the long-run effects of international trade policies.
    d. productivity and economic growth.

26. When taxes decrease, consumption
    a. increases as shown by a movement to the right along a given aggregate demand curve.
    b. increases, shifting aggregate demand to the right.
    c. decreases, shifting aggregate supply to the right.
    d. None of the above is correct.

27. The long-run aggregate supply curve shows that by itself a permanent change in aggregate demand would lead to a long-run change
    a. in the price level and real GDP.
    b. in the price level, but not real GDP.
    c. in real GDP, but not the price level.
    d. in neither the price level nor real GDP

28. Changes in the price level affect which components of aggregate demand?
    a. only consumption and investment
    b. only consumption and net exports
    c. only investment
    d. consumption, investment, and net exports

29. If the government raises government expenditures, in the short run, prices
    a. rise and unemployment falls.
    b. fall and unemployment rises.
    c. and unemployment rise.
    d. and unemployment fall.

30. The short-run relationship between inflation and unemployment is often called
    a. the Classical Dichotomy.
    b. Money Neutrality.
    c. the Phillips curve.
    d. the Keynesian cross.

31. Suppose the central bank pursues an expansionary monetary policy. In the short-run the effects of this are shown by
    a. moving to the left along the short-run Phillips curve.
    b. moving to the right along the short-run Phillips curve.
    c. shifting the short run Phillips curve right.
    d. shifting the short run Phillips curve left.

Continued...

32. A favorable supply shock will cause inflation to
    a. rise and shift the short-run Phillips curve right.
    b. rise and shift the short-run Phillips curve left.
    c. fall and shift the short-run Phillips curve right.
    d. fall and shift the short-run Phillips curve left.

33. Productivity is most closely matched with a country's
    a. Level of real GDP.
    b. Level of real GDP divided by hours worked.
    c. Growth rate of real GDP divided by hours worked.
    d. Growth rate of real GDP per person.

34. In the long run an increase in the saving rate
    a. doesn't change the level of productivity or income.
    b. raises the levels of both productivity and income.
    c. raises the level of productivity but not the level of income.
    d. raises the level of income but no the level of productivity.

35. If purchasing power parity holds, a dollar will buy
    a. more goods in foreign countries than in the United States.
    b. as many goods in foreign countries as it does in the United States.
    c. fewer goods in foreign countries than it does in the United States.
    d. None of the above is implied by purchasing-power parity.

36. In an open economy, the demand for loanable funds comes from
    a. only those who want to borrow funds to buy domestic capital goods.
    b. only those who want to borrow funds to buy foreign assets.
    c. those who want to borrow funds to buy either domestic capital goods or foreign assets.
    d. neither those who want to borrow funds to buy domestic capital goods nor those who want to borrow funds to buy foreign assets.

37. Other things the same, as the price level falls, a country's exchange rate
    a. and interest rates rise.
    b. and interest rates fall.
    c. falls and interest rates rise.
    d. rises and interest rates fall.

38. The open-economy macroeconomic model takes
    a. GDP, but not the price level as given.
    b. the price level, but not GDP as given.
    c. both the price level and GDP as given.
    d. the price level and GDP as variables to be determined by the model.

Continued...

39. Other things the same, a lower real interest rate decreases the quantity of
    a. loanable funds demanded.
    b. loanable funds supplied.
    c. domestic investment.
    d. net capital outflow.

40. If interest rates rose more in France than in the U.S., then other things the same
    a. U.S. citizens would buy more French bonds and French citizens would buy more U.S. bonds.
    b. U.S. citizens would buy more French bonds and French citizens would buy fewer U.S. bonds.
    c. U.S. citizens would buy fewer French bonds and French citizens would buy more U.S. bonds.
    d. U.S. citizens would buy fewer French bonds and French citizens would buy fewer U.S. bonds.

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SECTION B (60 MARKS)

There are THREE (3) questions in this section. Candidates MUST answer ALL THREE (3) questions.

Question 1 (20 Marks)

a) Below are price and quantity from the land of milk and honey.

Year	Price of milk	Quantity of milk (litre)	Price of honey	Quantity of honey (litre)
2006	RM1	100	RM2	50
2007	RM1	200	RM2	100
2008	RM2	200	RM4	100

i) Compute nominal GDP, real GDP, and the GDP deflator for each year, using 2006 as the base year.

(7 Marks)

ii) Compute the percentage change in nominal GDP, real GDP, and the GDP deflator in 2007 and 2008 from the preceding year.

(6 Marks)

iii) Did economic well-being rise more in 2007 or 2008? Explain.

(1 Mark)

b) List and explain **THREE (3)** types of unemployment.

(6 Marks)

Question 2 (20 Marks)

a) There are **THREE (3)** reasons the aggregate-demand curve is downward sloping. Explain.

(6 Marks)

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b) Suppose an economy is in long-run equilibrium.

i) Use the model of aggregate demand and aggregate supply to illustrate the initial equilibrium (call it point A). Be sure to include both short-run and long-run aggregate supply.

(6 Marks)

ii) The central bank raises the money supply by 5 percent. Use your diagram to show what happens to output and the price level as the economy moves from the initial to the new short-run equilibrium (call it point B).

(4 Marks)

iii) Now show the new long-run equilibrium (call it point C). What causes the economy to move from point B to point C?

(4 Marks)

Question 3 (20 Marks)

a) Define the following terms and explain their importance to the study of Macroeconomics:

(6 Marks)

i. Phillips curve

ii. Budget deficits and trade deficits

iii. Stagflation

b) If the Malaysian government will shore up the sliding ringgit by working to cut record budget and trade deficits, would a reduction in the budget deficit reduce the trade deficit? Would it raise the value of the ringgit? Explain the changes using the **THREE (3)** appropriate graphs.

(14 Marks)

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